
April 14, 2004



Human Capital

Strategic Management of Human Capital Reporting (D-2004-071)

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April 14, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR PERSONNEL
AND READINESS

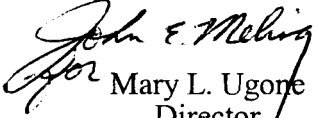
SUBJECT: Report on the Strategic Management of Human Capital Reporting (Report
No. D-2004-071)

We are providing this report for your information and use. This report addresses DoD reporting on the President's Management Agenda initiative for the strategic management of human capital to the Office of Management and Budget and ultimately to the President.

In preparing the final report, we considered comments from the Offices of the Under Secretary of Defense for Personnel and Readiness and the Army Assistant Deputy Chief of Staff for Civilian Personnel Policy. Those comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. John E. Meling at (703) 604-9091 (DSN 664-9091) or Mr. Jack D. Snider at (703) 604-9087 (DSN 664-9087). See Appendix E for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


for Mary L. Ugone
Director
Acquisition Management Directorate

Office of the Inspector General of the Department of Defense

Report No. D-2004-071
(Project No. D2003AE-0078)

April 14, 2004

Strategic Management of Human Capital Reporting

Executive Summary

Who Should Read This Report and Why? Civil Service managers, who are responsible for strategic management of human capital reporting, should read this report. This report addresses the adequacy of documentation submitted to the Office of the Under Secretary of Defense for Personnel and Readiness to support DoD reported progress against selected performance indicators and measures for accomplishing DoD human capital goals and initiatives in the DoD Civilian Human Resources Strategic Plan and the DoD Restructuring Plan.

Background. In August 2001, the Office of Management and Budget announced the President's Management Agenda, which is a strategy for improving the management of the Federal Government, as well as service to American citizens. The President's Management Agenda contains five Government-wide initiatives, one of which is strategic management of human capital. The Office of Management and Budget uses an Executive Branch Management Scorecard to assess progress in meeting Executive agency or department-planned goals and initiatives. The Office of Management and Budget rates each Executive agency or department on an annual basis coincident to the budget submission by using a "simple" grading system of red-yellow-green. The DoD Civilian Human Resources Strategic Plan and the DoD Restructuring Plan delineate the DoD goals and initiatives for improving the strategic management of human capital. The Under Secretary of Defense for Personnel and Readiness reports DoD progress against performance indicators and measures associated with DoD goals and initiatives to the Office of Management and Budget on a quarterly basis. The Office of Management and Budget briefs the President quarterly on reported progress in meeting Executive agency or department goals and initiatives.

Results. For the DoD Civilian Human Resources Strategic Plan, the Office of the Under Secretary of Defense for Personnel and Readiness generally had adequate documentation to support DoD progress against FY 2002 and the first quarter FY 2003 performance indicators and measures reported to the Office of Management and Budget. However, for the June 2003 update to the DoD Restructuring Plan, the Office of the Under Secretary of Defense for Personnel and Readiness, the Military Departments, and the Defense agencies in the Fourth Estate, with the exception of the Air Force,^{*} did not have complete supporting documentation for DoD reported progress in the Plan.^{*} As a result, the Under Secretary of Defense for Personnel and Readiness did not have assurance that the Military

^{*}At the beginning of the audit, the FY 2002 and the first quarter FY 2003 performance indicators and measures for the DoD Civilian Human Resources Strategic Plan were the most current and associated documentation was generally adequate to support the human capital initiative portion of the December 31, 2002, Scorecard. Therefore, we did not request additional documentation to validate updates for the June 2003 Scorecard. After reviewing the Strategic Plan, we reviewed the June 26, 2003, update to the DoD Restructuring Plan, which was the most current version.

Departments and the Defense agencies in the Fourth Estate were accurately recording, collecting, and reporting their progress towards meeting human capital initiatives associated with the June 2003 update to the DoD Restructuring Plan. In addition, the Under Secretary of Defense for Personnel and Readiness did not have assurance that the progress reported to the Office of Management and Budget and assessed in the Executive Branch Management Scorecard provided to the President was accurate. Requiring the Military Departments and the Defense agencies in the Fourth Estate to submit support for their progress in meeting human capital initiatives associated with the DoD Restructuring Plan to the DoD Civilian Personnel Management Service for verification before DoD reports the status of the initiatives to the Office of Management and Budget should bring improvements needed to ensure that human capital progress is accurately recorded, collected, and reported. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. We received comments from the Principal Deputy Under Secretary of Defense for Personnel and Readiness and a representative of the Office of the Army Assistant Deputy Chief of Staff for Civilian Personnel Policy. The Principal Deputy concurred with selected statements in the finding and the recommendation to require the Military Departments and the Defense agencies in the Fourth Estate to obtain support for their progress in meeting human capital initiatives. However, the Principal Deputy did not concur with the recommendation to require the DoD Civilian Personnel Management Service or a designee to verify progress reported by the Military Departments and the Defense agencies in the Fourth Estate. Instead, he suggested a corrective action that met the intent of the recommendation.

The representative of the Office of the Army Assistant Deputy Chief of Staff agreed with the finding and recommendations. (See the Finding section of this report for a discussion of the management comments and the Management Comments section of the report for the complete text of the comments.)

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Finding	
Support for Reported Progress in Meeting DoD Human Capital Goals	4
Appendixes	
A. Scope and Methodology	12
Prior Coverage	14
B. Glossary	15
C. Navy Claimants	17
D. Fourth Estate Organizations	18
E. Report Distribution	19
Management Comments	
Under Secretary of Defense for Personnel and Readiness	21
Department of the Army	25

Background

This report discusses DoD reporting on the President's Management Agenda initiative for strategic management of human capital to the Office of Management and Budget. Specifically, we verified the adequacy of support for DoD reported progress against selected performance indicators and measures associated with the goals contained in DoD Civilian Human Resources Strategic Plan and the initiatives contained in the DoD Restructuring Plan. Although the General Accounting Office has issued several reports in the area of strategic management of human capital, it was unable to obtain DoD supporting documentation for DoD progress reported to the Office of Management and Budget. Appendix B provides a glossary of technical terms used in this report.

President's Management Agenda. In August 2001, the Office of Management and Budget announced the President's Management Agenda, a strategy for improving the management of the Federal Government, as well as service to American citizens. The President's Management Agenda contains five Government-wide initiatives:

- strategic management of human capital,
- competitive sourcing,
- improved financial management,
- expanded electronic government, and
- budget and performance integration.

Executive Branch Management Scorecard. On October 30, 2001, the Director, Office of Management and Budget issued a memorandum stating that the Office of Management and Budget developed an Executive Branch Management Scorecard that shows assessments using a "simple" grading system for the status and progress being made by an Executive agency or department to address the five Government-wide initiatives. The Office of Management and Budget, along with the Office of Personnel Management, conducts the assessments on an annual basis coincident to the budget submission. In addition, the Office of Management and Budget briefs the President quarterly on the progress by the Executive agencies and departments. The Under Secretary of Defense for Personnel and Readiness reports DoD progress against the performance indicators and measures associated with the five Government-wide initiatives to the Office of Management and Budget on a quarterly basis.

Status Assessment. The Office of Management and Budget and the Office of Personnel Management assess the status of the strategic management of human capital initiative against standards for success. Those standards of success were developed and later revised by the Office of Management and Budget in collaboration with the Office of Personnel Management and the General Accounting Office and applied by each Executive agency and department. An Executive agency or department can receive a score of green, yellow, or red. Green means that all the standards for success have been met; yellow indicates that some, but not all, of the standards have been met; and red indicates that an

Executive agency or department has any number of serious flaws in meeting the standards for success.

Progress Assessment. The Office of Management and Budget and the Office of Personnel Management assess the progress an Executive agency or department is making on a case-by-case basis against agreed-upon deliverables and timeframes established for achieving the strategic management of human capital initiative. An Executive agency or department can also receive a score of green, yellow, or red for progress. Green means that implementation of the initiative is proceeding according to plan; yellow indicates that an Executive agency or department must make an adjustment to its plan to achieve the initiative on a timely basis; and red signifies that an initiative is in serious jeopardy of not being achieved as planned.

DoD Human Capital Goals and Initiatives. DoD human capital goals and initiatives are contained in the DoD Civilian Human Resources Strategic Plan and the DoD Restructuring Plan. DoD reports progress in meeting its goals and initiatives to the Office of Management and Budget.

DoD Civilian Human Resources Strategic Plan. Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget," revised July 25, 2003, Part 6, "Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports," requires Executive agencies and departments to submit a civilian human resources strategic plan, an annual performance plan, and an annual program performance report to the President, the Congress, and the Office of Management and Budget. The DoD Civilian Human Resources Strategic Plan 2002-2008 imparts DoD vision, values, goals, and objectives using a balanced scorecard approach. The balanced scorecard provides financial and operational measures correlating with the DoD vision, values, goals, and objectives. In addition, the DoD Civilian Human Resources Strategic Plan contains seven goals that address the strategic management of the human capital initiative. The DoD Civilian Personnel Management Service, Office of the Under Secretary of Defense for Personnel and Readiness, maintains an "evidence book" of all documentation to support DoD reported progress in meeting the seven goals. After consolidating the data, the DoD Civilian Personnel Management Service provides the data to the Under Secretary of Defense for Personnel and Readiness who prepares and submits a letter with suggested scores to the Office of Management and Budget.

Annual Performance Plan. Office of Management and Budget Circular No. A-11 requires that annual performance plan goals be based on the strategic plan general goals. The annual performance plan establishes performance goals that define the level of performance to be achieved during a fiscal year; expresses the goals in an objective, quantifiable, and measurable form; describes the processes to meet the performance goals; and establishes performance indicators to be used in measuring or assessing the outputs and outcomes of each activity.

Annual Performance Report. Office of Management and Budget Circular A-11 requires each Executive agency and department to submit an annual performance report to the President and Congress. The annual report provides

information on an Executive agency and department's actual performance and progress in achieving the goals and objectives in the strategic plan and annual performance plan.

Restructuring Plans. Office of Management and Budget Bulletin No. 01-07, "Workforce Planning & Restructuring," May 8, 2001, required Executive agencies and departments to submit to the Office of Management and Budget a workforce analysis by June 29, 2001. The Executive agencies and departments used the workforce analysis as the baseline to develop restructuring plans that were submitted with their FY 2003 budget requests and annual performance plans to the Office of Management and Budget. The restructuring plans are to make the Government more citizen-centered by identifying, over a 5-year period, the specific organizational changes that each Executive agency or department is proposing to:

- reduce the number of managers,
- reduce organizational layers,
- reduce the time it takes to make decisions,
- increase the span of control, and
- redirect positions within the agency to ensure the largest number of employees possible are in direct service delivery positions that interact with citizens.

The DoD Restructuring Plan, February 12, 2002, contains initiatives to address specific DoD organizational changes. Since February 12, 2002, the Office of the Under Secretary of Defense for Personnel and Readiness updated the DoD Restructuring Plan in September 2002 and June 2003, in the form of a DoD Restructuring Matrix. The restructuring matrix is used to report DoD progress in meeting the initiatives contained in the DoD Restructuring Plan. Through templates of the DoD Restructuring Matrix, performance management coordinators in the Military Departments and the Washington Headquarters Services, which reports for the Fourth Estate organizations,¹ report the component progress in meeting the five initiatives to the DoD Civilian Personnel Management Service. The DoD Civilian Personnel Management Service prepares a single restructuring matrix for submission to the Office of Management and Budget.

Objectives

The objective was to examine DoD reporting on the President's Management Agenda initiative for strategic management of human capital to the Office of Management and Budget. Specifically, the audit verified the adequacy of support for DoD actions for selected performance indicators and measures established to accomplish DoD human capital goals. See Appendix A for a discussion of the audit scope and methodology, and prior coverage related to the audit objectives.

¹See Appendix D for a list of the Fourth Estate organizations.

Support for Reported Progress in Meeting DoD Human Capital Goals

For the DoD Civilian Human Resources Strategic Plan, the Office of the Under Secretary of Defense for Personnel and Readiness generally had adequate documentation to support DoD progress against FY 2002 and the first quarter FY 2003 performance indicators and measures reported to the Office of Management and Budget. However, for the June 2003 update to the DoD Restructuring Plan, the Office of the Under Secretary of Defense for Personnel and Readiness, the Military Departments, and the Defense agencies in the Fourth Estate, with the exception of the Air Force, did not have complete supporting documentation for DoD reported progress in the Plan.² This condition occurred because the Office of the Under Secretary of Defense for Personnel and Readiness did not require the:

- performance management coordinators within the Military Departments and the Defense agencies in the Fourth Estate to provide support for their reported progress in meeting human capital initiatives associated with the DoD Restructuring Plan and
- DoD Civilian Personnel Management Service or a designee to verify the reported progress by the Military Departments and the Defense agencies in the Fourth Estate against supporting documentation to ensure the adequacy of reported progress associated with the DoD Restructuring Plan.

As a result, the Office of the Under Secretary of Defense for Personnel and Readiness did not have assurance that the Military Departments and the Defense agencies in the Fourth Estate were accurately recording, collecting, and reporting their progress towards meeting human capital goals associated with the June 2003 update to the DoD Restructuring Plan reported to the Office of Management and Budget and assessed in the Executive Branch Management Scorecard provided to the President.

Documentation Supporting Progress in Meeting DoD Civilian Human Resources Strategic Plan Goals

The Office of the Under Secretary of Defense for Personnel and Readiness generally had adequate documentation to support DoD reported progress against

²At the beginning of the audit, the FY 2002 and the first quarter FY 2003 performance indicators and measures for the DoD Civilian Human Resources Strategic Plan were the most current and associated documentation was generally adequate to support the human capital initiative portion of the December 31, 2002, Scorecard. Therefore, we did not request additional documentation to validate updates for the June 2003 Scorecard. After reviewing the Strategic Plan, we reviewed the June 26, 2003, update to the DoD Restructuring Plan, which was the most current version.

FY 2002 and the first quarter FY 2003 performance indicators and measures in the DoD Civilian Human Resources Strategic Plan 2002-2008.

DoD Civilian Human Resources Strategic Plan Goals. The DoD Civilian Human Resources Strategic Plan 2002-2008 contains the following seven goals:

- promote focused, well-funded recruiting to hire the best talent available,
- provide a human resources system that ensures the readiness of tomorrow's integrated force structure,
- promote and sustain an effective civilian workforce that is as richly diverse as America itself,
- invest in human capital to improve effectiveness of the workforce,
- provide management systems and tools that support total force planning and informed decision making,
- focus the human resources community on the needs of its customers, and
- promote quality of work life as an integral part of daily operations.

To meet the seven goals, the Office of the Under Secretary of Defense for Personnel and Readiness prepared an annual performance plan that identified the performance indicators and measures scheduled to be accomplished during that annual fiscal year reporting period.

Strategic Plan Reported Progress. For FY 2002, DoD planned to complete 29 performance indicators and measures associated with the seven goals in the DoD Civilian Human Resources Strategic Plan 2002-2008. In the FY 2002 Annual Performance Report, the Office of the Under Secretary of Defense for Personnel and Readiness reported that DoD completed 26 of the 29 performance indicators and measures associated with the seven goals. The Office of the Under Secretary of Defense for Personnel and Readiness rescheduled the three performance indicators and measures not completed in FY 2002, for completion in FY 2003. For the first quarter of FY 2003, DoD completed 11 of the 41 performance indicators and measures scheduled for completion in FY 2003, of which one had been carried over from FY 2002.

Strategic Plan Supporting Documentation. The DoD Civilian Personnel Management Service maintained an "evidence book" of supporting documentation for all completed performance indicators and measures. Our review of the 26 performance indicators and measures completed in FY 2002 and 11 performance indicators and measures completed in the first quarter of FY 2003 determined that the supporting documentation maintained by the DoD Civilian Personnel Management Service supported the completion of the performance indicators and measures for six of the seven DoD Civilian Human Resources Strategic Plan goals. However, for the goal to promote and sustain an

effective civilian workforce that is as richly diverse as America itself, the DoD Civilian Personnel Management Service had, as documentation, an undated and unsigned memorandum, “Achieving a Diverse and Capable Civilian Workforce,” that the Under Secretary of Defense for Personnel and Readiness prepared to support the accomplishment of this goal. Therefore, it was unclear whether DoD accomplished this performance indicator and measure because the DoD Civilian Personnel Management Service did not have evidence to show that the memorandum had been signed, dated, and distributed.

Support For Progress in Meeting DoD Restructuring Plan Initiatives

DoD Restructuring Plan. The Office of Management and Budget provided the DoD with guidance on preparing a restructuring plan to meet the President’s Management Agenda initiative to streamline Government organizations. The DoD Civilian Personnel Management Service provided restructuring matrix templates to the performance management coordinators at the Military Departments and Washington Headquarters Services to report progress in meeting the five initiatives in the DoD Restructuring Plan. The performance management coordinators provided the templates to their subordinate organizations for reporting progress in meeting the five initiatives. The subordinate organizations submitted the templates to the performance management coordinators who consolidated the organizations’ responses for submission to the DoD Civilian Personnel Management Service. The five initiatives in the DoD Restructuring Plan are:

- major headquarters reductions,
- planned reorganizations,
- reductions in the number of managers and supervisors,
- projected outsourcing efforts, and
- reengineered or streamlined processes resulting in efficiencies or savings.

Restructuring Plan Reported Progress. To determine the accuracy of support for DoD reported progress in meeting its restructuring plan initiatives, we judgmentally selected for review two of the five initiatives for which the Military Departments and the Fourth Estate organizations reported progress in the June 26, 2003, update to the DoD Restructuring Plan. Those initiatives were:

- major headquarters reductions and
- planned reorganizations.

Based on the results of the review, the Office of the Under Secretary of Defense for Personnel and Readiness, the Military Departments, and the Defense agencies in the Fourth Estate, except for the Air Force, did not have complete

documentation to support DoD reported progress for the major headquarters reductions and planned reorganizations initiatives in the June 26, 2003, update to the DoD Restructuring Plan.

Department of the Army Reported Progress. The Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs, the performance management coordinator for the Army, did not have adequate documentation to support the reported progress of the Army for the major headquarters reductions and planned reorganizations initiatives. To obtain the status on those two initiatives, the Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs sent out a request to two offices to update their progress. The Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs provided the Deputy Under Secretary of the Army memorandum, "Realignment Phase 2, Field Operating Agencies' Implementation Plans," January 29, 2003, that distributed a Secretary of the Army and Chief of Staff of the Army memorandum, same subject, November 26, 2002, as support for the reported progress of the Army towards accomplishing those two initiatives. The January 29, 2003, memorandum discussed the status of field operating agency implementation plans to accomplish the two initiatives. However, the Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs did not have copies of the implementation plans showing that they had been approved and implemented. Further, neither the Army's input to the DoD Restructuring Matrix nor the memorandum identified the percentage reduction in headquarters personnel that the Army had achieved or when the Army would achieve the 15 percent reduction in headquarters personnel directed by the National Defense Authorization Act for FY 2000.

Department of the Navy Reported Progress. The Office of the Deputy Assistant Secretary of the Navy for Civilian Human Resources, the performance management coordinator for the Navy, had complete documentation to support the reported progress of the Navy for the major headquarters reductions initiative, but not for the planned reorganizations initiative.

Major Headquarters Reductions Initiative. In the DoD Restructuring Matrix, the Navy reported a 9.4 percent reduction in major headquarters personnel from FY 1999 to FY 2002 and expects to achieve the 15 percent reduction by the end of FY 2004. The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) provided documentation supporting the reported and planned reductions in Navy headquarters personnel.

Planned Reorganizations Initiative. The Office of the Deputy Assistant Secretary of the Navy for Civilian Human Resources did not have complete documentation to support the progress reported for planned reorganizations. To obtain the status on this initiative, the Office of the Deputy Assistant Secretary sent out a restructuring matrix template to 23 separate Navy claimants³ and requested that they update their progress in meeting the initiative. In response, the Office of the Deputy Assistant Secretary received reported progress from the Office of the Chief of Naval Education and Training; the Office of the Commander, Naval Reserve Force; and the Office of the Commander,

³See Appendix C for a list of the 23 Navy claimants.

U.S. Atlantic Fleet. The Office of the Deputy Assistant Secretary combined those Navy claimant responses into a single restructuring matrix and submitted the matrix to the DoD Civilian Personnel Management Service. To verify support for the reported progress, we judgmentally selected the Office of the Commander, Naval Reserve Force and requested supporting documentation from that command and its subordinate reporting components. The Office of the Commander, Naval Reserve Force reported progress concerning staffing, management and training, savings associated with closure of organizations, financial services, savings associated with mergers and relocations, recruiting, and transfer of functions. However, the Office of the Commander, Naval Reserve Force incorrectly reported the accomplishment of reserve center mergers and relocations and did not provide complete documentation to support reported cost savings resulting from the disestablishment of the North Central and Mid-South Regions of the Naval Reserve Force Readiness Command.

Department of the Air Force Reported Progress. The Office of the Air Force Deputy Chief of Staff for Personnel, the performance management coordinator for the Air Force, had adequate documentation to support the reported progress of the Air Force for the major headquarters reductions and planned reorganizations initiatives. Within the Office of the Deputy Chief of Staff, individuals for 10 functional areas monitor the progress of the Air Force in implementing the five initiatives in the DoD Restructuring Plan. The Air Force Strategic Office for Personnel, Office of the Air Force Deputy Chief of Staff for Personnel consolidated the progress of the Air Force into a single restructuring matrix for each initiative and submitted it to the DoD Civilian Personnel Management Service. For the major headquarters reductions, the Air Force reported that a 15 percent reduction in headquarters personnel was being implemented. For the planned reorganizations initiative, the Air Force reported the implementation of a new Air Force combat wing. To verify support for the reported progress, we contacted the individuals responsible for each initiative and they were able to provide supporting documentation.

Fourth Estate Organizations Reported Progress. The Washington Headquarters Services, the performance management coordinator for the Fourth Estate, did not have adequate documentation to support Fourth Estate organizations reported progress for the major headquarters reductions and planned reorganizations initiatives. To obtain the status on those initiatives, the Washington Headquarters Services sent out a restructuring matrix template to 13 of the 14 Defense subordinate reporting organizations⁴ that makeup the Fourth Estate and requested they update their progress in meeting the initiatives. The Washington Headquarters Services combined the 13 responses into a single restructuring matrix and submitted the matrix to the DoD Civilian Personnel Management Service. To verify support for the reported progress, we selected 6 of the 10 organizations⁵ that reported progress in one or both of the initiatives to Washington Headquarters Services. Specifically, we selected the Defense

⁴Washington Headquarters Services did not provide a restructuring matrix template to the Defense Security Cooperation Agency, the remaining Fourth Estate organization, because it did not have the name of the performance management coordinator.

⁵The four Fourth Estate organizations not selected were the Defense Contract Audit Agency, the Defense Logistics Agency, the Defense Threat Reduction Agency, and the Office of the Secretary of Defense.

Advanced Research Projects Agency, the Defense Commissary Agency, the Defense Contract Management Agency, the Defense Finance and Accounting Service, the Defense Information Systems Agency, and the Defense Security Service and requested supporting documentation from those organizations. Of the six organizations, only the Defense Advanced Research Projects Agency and the Defense Contract Management Agency responded to our request for supporting documentation.

Defense Advanced Research Projects Agency. In its status report to the Washington Headquarters Services, the Defense Advanced Research Projects Agency reported progress for the major headquarters reductions initiative; however, the calculations in its documentation did not support a 15 percent major headquarters reduction.

Defense Contract Management Agency. In its status report to the Washington Headquarters Services, the Defense Contract Management Agency reported progress for the major headquarters reductions and the planned reorganizations initiatives. The agency did not provide documentation to support the FY 2000 staffing level, which was the base year used to calculate a 15 percent major headquarters reduction. Conversely, for the planned reorganizations initiative, the agency did provide documentation that adequately supported the reported progress concerning closure of 16 contract management offices from FY 2002 through FY 2003.

Effect on Human Capital Reporting

Without complete supporting documentation, the Office of the Under Secretary of Defense for Personnel and Readiness did not have assurance that the Military Departments and the Defense agencies in the Fourth Estate were accurately recording, collecting, and reporting progress being made in meeting human capital initiatives associated with the DoD Restructuring Plan reported to the Office of Management and Budget and assessed in the Executive Branch Management Scorecard provided to the President.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. In response to comments by the Principal Deputy Under Secretary of Defense for Personnel and Readiness, we revised Recommendations 1. and 2. by replacing the phrase “subordinate reporting components” with “Military Departments and Defense agencies” to clarify the relationship between the Office of the Under Secretary of Defense for Personnel and Readiness and the Military Departments and the Defense agencies.

We recommend that the Under Secretary of Defense for Personnel and Readiness:

1. Require the Military Departments and the Defense agencies in the Fourth Estate to obtain support for their progress in meeting human capital initiatives associated with the DoD Restructuring Plan before submission of their accomplishments to the DoD Civilian Personnel Management Service.

Principal Deputy Under Secretary of Defense for Personnel and Readiness Comments. The Principal Deputy concurred, stating that the Military Departments and the Defense agencies should require and maintain supporting documentation for reported progress in meeting human capital initiatives associated with the DoD Restructuring Plan before they report their progress to the DoD Civilian Personnel Management Service. The Principal Deputy also stated that the DoD Civilian Personnel Management Service would, at a meeting on March 31, 2004, provide the Military Departments and the Defense agencies with guidance on the type and sufficiency of supporting documentation required. For the complete text of the Principal Deputy's comments, see the Management Comments section of the report.

Army Comments. Although not required to comment, a representative of the Office of the Army Assistant Deputy Chief of Staff for Civilian Personnel Policy agreed with the recommendation. For the complete text of the Army's comments, see the Management Comments section of the report.

2. Require the DoD Civilian Personnel Management Service or a designee to verify progress reported by the Military Departments and the Defense agencies in the Fourth Estate with the supporting documentation to ensure the accuracy of the reported progress associated with the DoD Restructuring Plan before reporting the status of the initiatives to the Office of Management and Budget.

Principal Deputy Under Secretary of Defense for Personnel and Readiness Comments. The Principal Deputy nonconcurred, stating that the chain of command within each Military Department and Defense agency approves their progress in meeting human capital initiatives before they report their progress to the DoD Civilian Personnel Management Service. Further, he stated that DoD Civilian Personnel Management Service would have to assume an audit role to implement the recommendation and did not have the personnel for such a responsibility. As an alternative, the Principal Deputy stated that the DoD Civilian Personnel Management Service would provide written guidance to the Military Departments and the Defense agencies at a meeting on March 31, 2004. The written guidance would discuss the type and sufficiency of supporting documentation required to substantiate reported workforce restructuring progress. Further, the Principal Deputy stated that the DoD Civilian Personnel Management Service would continue to work with the Military Departments and the Defense agencies on the quality of their workforce restructuring plan submissions and would perform random reviews of the supporting documentation before submitting the June 2004 Workforce Restructuring Plan.

Army Comments. Although not required to comment, a representative of the Office of the Army Assistant Deputy Chief of Staff for Civilian Personnel Policy agreed with the recommendation.

Audit Response. The alternative action that the Principal Deputy Under Secretary of Defense for Personnel and Readiness has taken and plans to take satisfies the intent of the recommendation.

Appendix A. Scope and Methodology

We reviewed documentation dated from May 2001 to July 2003. To accomplish the audit objective, we reviewed:

- the strategic management of human capital initiative portion of the Executive Branch Management Scorecard, December 31, 2002;
- the DoD Civilian Human Resources Strategic Plan 2002-2008, including:
 - Addendum A, Office of Management and Budget (OMB) Scorecard Cascade;
 - Addendum B, Human Resources Strategic Plan Goals;
 - Draft Annex A, FY 2002 Annual Report; and
 - Draft Annex B, FY 2003 Year of Execution Plan.
- the list of DoD performance indicators and measures scheduled for completion in FY 2002;
- Office of the Secretary of Defense, Military Departments, and Defense agencies documentation to support DoD performance indicators and measures reported as completed in FY 2002;
- the list of DoD performance indicators and measures completed in the first quarter of FY 2003;
- Office of the Secretary of Defense, Military Departments, and Defense agencies documentation to support DoD performance indicators and measures recorded as completed in the first quarter of FY 2003;
- the DoD Restructuring Plan, February 12, 2002;
- the update to the DoD Restructuring Plan, June 26, 2003;
- Military Department and Defense agency documentation to support DoD reported progress for the major headquarters reductions and planned reorganization initiatives contained in the June 26, 2003, update to the DoD Restructuring Plan;
- Office of Management and Budget Circular No. A-11, “Preparation, Submission, and Execution of the Budget,” revised July 25, 2003, Part 6, “Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports;” and
- Office of Management and Budget Bulletin No. 01-07, “Workforce Planning & Restructuring,” May 8, 2001.

In addition, we interviewed cognizant personnel in the Offices of the Under Secretary of Defense for Personnel and Readiness; the Assistant Secretary of the Army for Manpower and Reserve Affairs; the Deputy Assistant Secretary of the Navy for Civilian Human Resources; the Air Force Deputy Chief of Staff for Personnel; the Washington Headquarters Services, including selected Fourth Estate organizations; the Office of Management and Budget; and the Office of Personnel Management.

To further accomplish the audit objective, we judgmentally selected the first two initiatives, major headquarters reductions and planned reorganizations, in the June 26, 2003, update to the DoD Restructuring Plan, for review. To determine the adequacy of the Military Departments and Defense agencies supporting documentation associated with the reported progress in the June 26, 2003, update to the DoD Restructuring Plan, we contacted the following individuals and organizations:

- the performance management coordinator for the Army in the Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs;
- the performance management coordinator for the Navy in the Office of the Deputy Assistant Secretary of the Navy for Civilian Human Resources, including the Assistant Secretary of the Navy (Financial Management and Comptroller), and the Commander, Naval Reserve Force;
- the performance management coordinator for the Air Force in the Office of the Air Force Deputy Chief of Staff for Personnel; and
- the performance management coordinator for the Fourth Estate, Washington Headquarters Services, and Defense agency reporting coordinators in the Defense Advanced Research Projects Agency, the Defense Commissary Agency, the Defense Contract Management Agency, the Defense Finance and Accounting Service, the Defense Information Systems Agency, and the Defense Security Service.

Although the December 31, 2002, Executive Branch Management Scorecard included initiatives for military recruitment, retention, and separation of personnel, DoD did not report progress for these areas in the scorecard. Therefore, we did not select those initiatives for review during this audit. Further, we reviewed three prior Executive Branch Management Scorecards, September 30, 2002; June 30, 2002; and May 8, 2002, and determined that no progress was reported on the scorecards for human capital initiatives related to the Military Departments.

*The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) was selected because it provided documentation on major headquarters reduction. Further, although the Offices of the Chief of Naval Education and Training, and the Commander, U.S. Atlantic Fleet, also reported progress in meeting the planned reorganization initiative, we selected the Office of the Commander, Naval Reserve Force for review because it reported the most progress for that initiative.

We performed this audit from February 2003 through March 2004 in accordance with generally accepted government auditing standards. We did not review the management control program because the audit focused on the reporting of selected performance indicators and measures established to accomplish DoD human capital goals. Our scope was limited to the adequacy of DoD documentation supporting the accomplishment of selected performance indicators and measures in the strategic management of human capital initiative portion of the Executive Branch Management Scorecard, December 31, 2002; and the June 2003 update to the DoD Restructuring Plan.

Use of Computer-Processed Data. We did not rely on computer-processed data to perform this audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the DoD strategic human capital high-risk area.

Prior Coverage

During the last 5 years, the General Accounting Office has issued numerous reports addressing DoD strategic management of human capital; however, none of the reports addressed the adequacy of DoD supporting documentation for DoD progress reported to the Office of Management and Budget. Unrestricted General Accounting Office reports can be accessed at <http://www.gao.gov/>.

Appendix B. Glossary

Executive Agency or Department. An Executive agency or department is defined as an Executive department, a Government Corporation, and an independent establishment by section 105, title 5, United States Code, but does not include the Federal Bureau of Investigation, the Central Intelligence Agency, the Defense Intelligence Agency, the National Geospatial-Intelligence Agency,¹ and the National Security Agency.

Citizen-Centered. Citizen-centered means that as little distance as possible exists between the citizens and decision makers. To decrease the distance between citizens and Cabinet members, the Administration plans to compress the Federal hierarchy, reduce the number of layers in the upper echelons of Government, and use workforce planning to help agencies redistribute higher-level positions to front-line, service-delivery positions that interact with citizens.

Evidence Book. The “evidence book” is a binder that the DoD Civilian Personnel Management Service, Office of the Under Secretary of Defense for Personnel and Readiness, maintains of all documentation to support DoD reported progress in meeting the seven goals contained in the DoD Civilian Human Resources Strategic Plan.

Fourth Estate Organizations. Fourth Estate organizations are listed in Appendix D. The Washington Headquarters Services reports the Fourth Estate organizations’ progress in meeting the President’s Management Agenda initiatives to the Office of the Under Secretary of Defense for Personnel and Readiness.

General Goals. General goals are included in the strategic plan. A general goal defines how an agency will carry out its mission over a period of time. The goal is expressed in a manner that allows a future assessment to be made of whether the goal was or is being achieved. The goal may be of a programmatic, policy, or managerial in nature. General goals are typically outcome-type goals.

Performance Indicator. A performance indicator is a particular value or characteristic used to measure a DoD output or outcome. Output is a description of the level of activity or effort that will be produced or provided over a period of time or by a specific date. Outcome is a description of the intended result, effect, or consequence that will occur from carrying out a program or activity.

Performance Measure. A performance measure is a performance goal or performance indicator.

Performance Management Coordinator. The performance management coordinator is the designated individual within each of the Military Departments and Washington Headquarters Services,² who is responsible for reporting the

¹Formerly the National Imagery and Mapping Agency.

²The Washington Headquarters Services reports the Fourth Estate organizations’ progress in meeting the President’s Management Agenda.

component's progress in meeting the President's Management Agenda initiatives to the Office of the Under Secretary of Defense for Personnel and Readiness.

Standards for Success. The standards for success contain discrete outcomes that Executive agencies and departments strive to meet. The standards for success are strategic alignment, workforce planning and deployment, leadership and knowledge management, results-oriented performance culture, talent, and accountability.

Appendix C. Navy Claimants

The following is a list of the 23 Navy claimants:

Assistant For Administration/ Under Secretary of the Navy	Naval Facilities Engineering Command
Bureau of Medicine and Surgery	Naval Meteorology and Oceanography Group
Bureau of Naval Personnel	Naval Security Group
Chief of the Naval Reserve	Naval Supply Systems Command
Commander, Atlantic Fleet	Naval Systems Management Agency
Commander, Naval Forces Europe	Navy Network Operations Command
Commander, Naval Installations	Office of Naval Intelligence
Commander, Pacific Fleet	Office of Naval Research
Immediate Office of the Chief of Naval Operations	Space and Naval Warfare Systems Command
Military Sealift Command	Special Warfare Command
Naval Air Systems Command	Strategic Systems Programs
Naval Education and Training Command	

Appendix D. Fourth Estate Organizations

The following is a list of the 14 Fourth Estate organizations:

- Defense Advanced Research Projects Agency
- Defense Commissary Agency
- Defense Contract Audit Agency
- Defense Contract Management Agency
- Defense Finance and Accounting Agency
- Defense Information Systems Agency
- Defense Logistics Agency
- Defense Security Cooperation Agency
- Defense Security Service
- Defense Threat Reduction Agency
- Inspector General of the Department of Defense
- Missile Defense Agency
- Office of Economic Adjustment
- Office of the Secretary of Defense

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness

Department of the Army

Assistant Secretary of the Army for Manpower and Reserve Affairs
Auditor General, Department of the Army
Army Assistant Deputy Chief of Staff for Civilian Personnel Policy

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy for Manpower and Reserve Affairs
Deputy Assistant Secretary of the Navy for Civilian Human Resources
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force Deputy Chief of Staff for Personnel
Auditor General, Department of the Air Force

Combatant Command

Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Advanced Research Projects Agency
Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Contract Management Agency
Director, Defense Finance and Accounting Agency
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, Defense Security Cooperation Agency
Director, Defense Security Service

Other Defense Organizations (cont'd)

Director, Defense Threat Reduction Agency
Director, Missile Defense Agency
Director, Office of Economic Adjustment
Director, Washington Headquarters Services

Non-Defense Federal Organizations

Office of Management and Budget
Office of Personnel Management

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Under Secretary of Defense for Personnel and Readiness Comments



PERSONNEL AND
READINESS


UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000



MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE
INSPECTOR GENERAL, DIRECTOR, ACQUISITION
MANAGEMENT DIRECTORATE

SUBJECT: Report on The Strategic Management of Human Capital Reporting
(Project No. D2003AE-0078)

We appreciate the opportunity to provide our comments on the referenced draft report (comments attached). If you have any questions, the point of contact is Ms. Donna Brown at 703-696-2104.


Charles S. Abell
Principal Deputy

Attachment:
As stated



COMMENTS ON
THE DoD INSPECTOR GENERAL (DoDIG) DRAFT REPORT: REPORT ON
THE STRATEGIC MANAGEMENT OF HUMAN CAPITAL REPORTING
(Project No. D2003AE-0078)

I. COMMENTS ON REPORT FINDINGS: (Page 4)

I-A. DoDIG Finding:

“For the DoD Civilian Human Resources Strategic Plan, the Office of the Under Secretary of Defense for Personnel and Readiness generally had adequate documentation to support DoD progress against FY 2002 and the first quarter FY 2003 performance indicators and measures.”

Comment: Concur

I-B. DoDIG Finding:

“However, the Office of the Under Secretary of Defense for Personnel and Readiness and its subordinate reporting components, with the exception of the Air Force, did not have adequate supporting documentation for their reported progress in the June 2003 update to the DoD Restructuring Plan. This condition occurred because the Office of the Under Secretary of Defense for Personnel did not require:

- performance management coordinators within their subordinate reporting components to provide support for their progress in meeting human capital initiatives associated with the DoD Restructuring Plan.”

Comment: Concur

Each military department and defense agency submission is approved within each component’s chain of command before submission to the CPMS for consolidation into the DoD Restructuring Plan submission. We expect that each component maintain adequate supporting documentation. Therefore, at the time of this review, CPMS had not prescribed the level or type of evidence required to support reported progress.

I-C. DoDIG Finding:

“This condition occurred because the Office of the Under Secretary of Defense for Personnel did not require:

**COMMENTS ON
THE DoD INSPECTOR GENERAL (DoDIG) DRAFT REPORT: REPORT ON
THE STRATEGIC MANAGEMENT OF HUMAN CAPITAL REPORTING
(Project No. D2003AE-0078)**

- the [DoD Civilian Personnel Management Service] to verify subordinate reporting components progress against supporting documentation to ensure the adequacy of reported progress associated with the DoD Restructuring Plan.”

Comment: Concur

II. COMMENTS ON REPORT RECOMMENDATIONS: (Page 9)

“We recommend that the Under Secretary of Defense for Personnel and Readiness:

1. Require its subordinate reporting commands to obtain support for their progress in meeting human capital initiatives associated with the DoD Restructuring Plan before submission of their accomplishments to the DoD Civilian Personnel Management Service.
2. Require the DoD Civilian Personnel Management Service to verify subordinate reporting components progress to supporting documentation to ensure the accuracy of reported progress associated with the DoD Restructuring Plan before reporting the status of the initiatives to the Office of Management and Budget.”

Comment : Concur with Recommendation 1

We agree that the military departments and defense agencies should require and maintain supporting documentation regarding their progress in meeting human capital initiatives associated with the DoD Restructuring Plan before submission of the accomplishments to CPMS. CPMS can assist these components by providing guidance as to the type and sufficiency of supporting documentation required and will do so prior at a meeting of the POCs on March 31, 2004.

Comment: Non-concur with Recommendation 2

Each military department and defense agency submission is approved within each component’s chain of command before submission to CPMS for consolidation into the DoD Restructuring Plan submission. CPMS is not an audit organization, but would be assigned an audit role if this recommendation were implemented. We do not have personnel to assume this responsibility.

**COMMENTS ON
THE DoD INSPECTOR GENERAL (DoDIG) DRAFT REPORT: REPORT ON
THE STRATEGIC MANAGEMENT OF HUMAN CAPITAL REPORTING
(Project No. D2003AE-0078)**

As an alternative, CPMS will provide written guidance on the type and sufficiency of evidence required to substantiate reported workforce restructuring progress at the March 31, 2004 meeting. Subsequent to that meeting, CPMS will continue to work with components on the quality of their workforce restructuring plan submissions and perform random reviews of components' supporting documentation prior to the June 2004 Workforce Restructuring Plan submission.

III. General Comment:

Throughout the proposed draft report, the military departments are referred to as "subordinate reporting components." We request that this language be removed and substituted with "Military Departments and Defense Agencies." These components are not subordinates to the Office of the Under Secretary of Defense for Personnel and Readiness and as written misrepresents the equal relationship between the civilian and military components.

Department of the Army Comments

From: Quinn, Mary [mailto:Mary.Quinn@asamra.hoffman.army.mil]
Sent: Tuesday, March 16, 2004 3:46 PM
To: 'JHoyt@dodig.ods.mil'
Cc: Cannon, Rickie
Subject: Comments to Draft of Proposed Report on Strategic Management of Human Capital Reporting

Mr. Hoyt,

As discussed earlier, Army's comments on subject draft are below.

Concur with the finding that the Assistant Secretary of the Army for Manpower and Reserve Affairs did not have adequate documentation to support the reported progress of the Army for the major headquarters reductions and planned reorganization initiatives. All restructuring decisions and approved plans are maintained at the Office of the Deputy Under Secretary of the Army, not within the Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs. Future reports will specify where supporting documentation is maintained.

Concur with the finding that neither Army's input to the DoD Restructuring Matrix nor the memorandum identified the percent reduction in headquarters personnel the Army had achieved nor when the Army would achieve the 15 percent reduction directed by the National Defense Authorization Act for FY 2000.

Concur with the recommendations that the Under Secretary of Defense for Personnel and Readiness:

1. Require its subordinate reporting components to obtain support for their progress in meeting human capital initiatives associated with the DoD Restructuring Plan before submission of their accomplishments to the DoD Civilian Personnel Management Service.
2. Require the DoD Civilian Personnel Management Service to verify subordinate reporting components progress (with) supporting documentation to ensure the accuracy of reported progress associated with the DoD Restructuring Plan before reporting the status of the initiatives to the Office of Management and Budget.

Thank you for your consideration.

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Team Members

The Acquisition Management Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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